

IMMERSION CORP
Form 10-K
March 05, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the fiscal year ended December 31, 2011 or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 000-27969

Immersion Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-3180138

(IRS Employer Identification No.)

30 Rio Robles

San Jose, California 95134

(Address of principal executive offices, zip code)

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(408) 467-1900

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, \$0.001 par value	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was \$174,596,058 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person whom owns 5% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. Number of shares of common stock outstanding at February 24, 2012: 27,880,980.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2012 Annual Meeting are incorporated by reference into Part III hereof.

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IMMERSION CORPORATION
2011 FORM 10-K ANNUAL REPORT

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Forward-looking Statements

In addition to historical information this Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The forward-looking statements involve risks and uncertainties. Forward-looking statements are identified by words such as anticipates, believes, expects, intends, may, will, and other similar expressions. However, these words are not the only way we identify forward-looking statements. In addition, any statements which refer to expectations, projections, or other characterizations of future events, or circumstances, are forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including those set forth below in Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors and those described elsewhere in this report, and those described in our other reports filed with the Securities and Exchange Commission (SEC). We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report, and we undertake no obligation to update these forward-looking statements after the filing of this report. You are urged to review carefully and consider our various disclosures in this report and in our other reports publicly disclosed or filed with the SEC that attempt to advise you of the risks and factors that may affect our business.

PART I

Item 1. Business

Overview

Immersion Corporation is a leading provider of haptic technologies that allow people to use their sense of touch more fully when operating a wide variety of digital devices. To achieve this heightened interactivity, we develop and market or license a wide range of software technologies and products. While we believe that our technologies are broadly applicable, we are currently focusing our marketing and business development activities on the following target markets: mobile communications & consumer electronics, automotive, gaming, commercial and industrial, and medical.

Prior to April 2010, we managed these markets under two operating and reportable segments: 1) the Touch Line of Business and 2) the Medical Line of Business. In March 2010, we sold certain assets of the Endoscopy, Endovascular, and Laparoscopy medical simulation product lines. See Note 11 of the consolidated financial statements. As a result, our business has been consolidated into a single segment and we now operate primarily under a licensing model. As such, we no longer report on a segment basis. See Management's Discussion and Analysis of Financial Condition and Results of Operations as well as the notes to the consolidated financial statements for further information.

In our target markets we license our technologies to manufacturers who use them in products sold under their own brand names. We and our wholly owned subsidiaries hold more than 1,200 issued or pending patents in the U.S. and other countries, covering various aspects of hardware and software technologies.

Immersion Corporation was incorporated in 1993 in California and reincorporated in Delaware in 1999. We consummated our initial public offering on November 12, 1999.

Our Business Strategy

Our goal is to continue to be the technology and market leader in haptic technologies and drive the adoption of our touch technologies across markets and applications to improve the user experience with digital devices and systems. Key aspects of our strategy include:

Extending our Technology Leadership Position: We and our wholly owned subsidiaries have a global technology portfolio of over 1200 issued or pending patents. We intend to leverage this technology portfolio,

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know-how and expertise to extend our leadership position in the haptics and user interface markets. We aim to do this by taking a system-level approach to innovation, which will require us to continuously evolve our technology to provide natural and realistic touch effects, while also inventing new contexts in which users experience haptics. We plan to do this by continuing our investment in research and engineering activities and also through expanding our relationships with technology partners and alliances as well as through potential technology acquisitions.

Continuing our Licensing Business Model: We believe the licensing business model is one that provides us with the flexibility to leverage various distribution channels to extend the reach of haptics technology into a broad number of markets. This commitment to a licensing business model will allow us to focus our energy on technology leadership and innovation and provide our customers, licensees and partners with compelling haptic technology and experiences.

Capitalizing on the Trend of Touch Screens in Mobile and Other Markets: The proliferation of touch screen device designs is a trend that we believe is aligned with the value proposition of haptics. Through our technology innovation efforts, our sales and distribution channels and our marketing efforts, we will look to capitalize upon this movement toward touch screen devices by offering existing and new customers haptic solutions that enhance the user experience with touch screen devices.

Expanding Our Customer Relationships: We plan to strengthen and expand our top tier customer relationships in our target markets to develop new haptic experiences that are the most advanced solutions in the market. We plan to do this by developing technology and tools that simplify haptic integration for our customers, as well as offering development tools that extend access to haptic effects to third parties and developers, increasing the accessibility of haptic technology to a broader ecosystem of partners.

Haptics and Its Benefits

In the world of mobile devices, computers, consumer electronics, and digital devices and controls, meaningful haptic (touch) information is limited or missing. For example, when dialing a number or entering text on a conventional touchscreen, users feel only the touchscreen surface, without the subtle, yet confirming sensation they expect from mechanical switches and keyboards.

To supply richer, more meaningful haptic feedback — also known as force feedback, touch feedback, or tactile feedback — electronic input/output devices can be made to generate physical forces. Immersion's programmable haptic technologies embedded in many types of devices can give users physical sensations appropriate to the situation. We believe the programmability of our haptic products is a key differentiator over purely electro-mechanical systems and can drive the further adoption of cost effective and more reliable digital devices. A programmable device can supply a tactile response appropriate to the context of operation for systems and devices of many types. Programmability also supplies more flexibility in the types of responses that are possible, in upgradeability, in consistent performance that will not degrade over time, and in the potential for personalized settings. Multiple mechanical controls can be consolidated into one versatile programmable control that can save space and improve ergonomics. Conversely, one programmable control device can be implemented to cover many different types of controls with context-appropriate touch feedback, which can reduce or simplify parts in a device.

With Immersion's haptics, users can feel as though they are interacting with different textures and mass, compliant springs, solid barriers, deep or shallow detents. They can feel the force or resistance as they push a virtual button, scroll through a list or encounter the end of a menu. In a video or mobile game, users can feel the gun recoil, the engine rev, or the crack of the bat meeting the ball. When simulating the placement of cardiac pacing leads, a user can feel the forces that would be encountered when navigating the leads through a beating heart, providing a more realistic experience of performing this procedure. These forces are created by actuators, such as motors, which are built into devices such as joysticks, steering wheels, gamepads, personal music players, mobile phones, robotic surgical systems and medical training simulators. Actuators can also be designed

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into devices used in automotive, industrial, medical, or retail kiosk and point-of-sale systems, such as digital switches, rotary controls, touchscreens, and touch surfaces. These actuators are combined with software elements to control the actuator behavior to create the haptic sensation.

Understanding that a user experience is the result of a confluence of software and enabling hardware, Immersion has taken a system-level approach to technology development: continuously developing a foundational expertise in haptic technology to provide natural and realistic touch effects while also inventing new contexts in which users experience haptics. Immersion's patented technologies include software elements, such as real-time software algorithms and authoring tools, and specialized hardware elements, such as motors, sensors, transmissions and control electronics. Together, these software and hardware elements enable tactile sensations that are context appropriate within the applications, creating a compelling user experience. We believe our haptic solutions offer the following benefits:

Improved Usability: By restoring the mechanical feel of buttons and controls in devices, our haptic technology provides critical tactile feedback that enhances device usability.

Realism: Haptics injects a sense of realism into user experiences, allowing the user to feel the action and nuance of the application. This is particularly relevant in applications that rely on only visual and audio inputs. The addition of tactile feedback provides additional context that translates into a sense of realism for the user.

Ease of Integration: Our solutions take a system-level approach that provides our customers with resources in the mechanical integration of haptics as well as the operating system and application integration. At the mechanical level, our solutions come with in-depth design recommendations, as well as a vetted community of approved component vendors. At the OS and application level, we provide integration tools to improve the usability of haptic effects in the device, as well as customization tools for developers to insert or create their own haptic effects.

We believe these features of our haptic technology are broadly applicable to a number of markets and devices. By continuing to enhance these features through further research and development, we believe we will serve as a strategic partner for our customers and partners in helping them develop a more compelling user experience for consumers.

Our Solutions

Our goal is to improve the way people interact with digital devices by engaging their sense of touch. Our core competencies include our understanding of how interactions should feel and our knowledge of how to use technology to achieve that feeling. Our strength in both of these areas has resulted in many novel applications.

We believe that our touch-enabled products and technologies give users a more complete, intuitive, enjoyable, and realistic experience. Our patented designs include software elements such as real-time software algorithms and authoring tools, and specialized hardware elements, such as motors, sensors, transmissions, and control electronics. Together, these software and hardware elements enable tactile sensations that are context-appropriate within the application.

We have developed haptic systems for many types of hardware input/output devices such as gamepads, joysticks, mobile phones, rotary controls, touchscreens, and flexible and rigid endoscopy devices for medical simulations.

We have developed many mechanisms and recommended design solutions to convey forces to the user's hands or body. These include vibro-tactile actuators, direct-, belt-, gear-, or cable-driven mechanisms and other proprietary devices that supply textures and vibration, resistance, and damping forces to the user.

To develop our real-time electronic actuator controllers, we had to address challenges such as size, accuracy, resolution, frequency, latency requirements, power consumption, and cost. Our control solutions include both

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closed-loop and open-loop control schemes. In closed-loop control, the firmware reads inputs from the input/output devices, and then calculates and applies the output forces in real time based on the input data. In open-loop control, a triggering event will activate the firmware to calculate and send the output signal to the actuator in real time.

We have developed many software solutions for various operating systems and computing platforms including personal computers, automotive, and mobile handset operating systems. Our inventions include control algorithms for efficiently driving relevant families of actuators (such as spinning mass actuators, linear actuators, and piezo-electric systems) as well as several generations of authoring tools for creating, visualizing, modifying, archiving, and experiencing haptic feedback.

Licensed Solutions

In our target application areas, such as mobile phones, video console gaming, consumer electronics, medical simulation and surgical robotic systems and automotive controls, we license our technologies to OEMs or their suppliers who then include our technologies in products sold under their own brand names. We license our technology solutions under the TouchSense brand, and have developed a family of TouchSense solutions that are intended to address the needs of our target markets.

TouchSense 1000: Targeted to the commercial and industrial and automotive markets, the TouchSense 1000 family offers haptic effects for touch screens, touch panels, and touch surfaces that is optimized for strength in demanding applications and extreme environments.

TouchSense 2000: Targeted to mass market consumer electronic devices such as microwaves, cameras and tablet PCs, the TouchSense 2000 family provides haptic effects for touch screens and touch panels, providing pre-designed haptic effects and UI support along with design recommendations oriented for mass market devices.

TouchSense 3000: Targeted to the mobile communications and consumer electronics market, the TouchSense 3000 family provides precise actuator control to single actuator designs, making it an easy to implement solution that enables over 100 haptic effects.

TouchSense 4000: Building off the TouchSense 3000 family, the TouchSense 4000 family also targets the mobile communications and consumer electronics market by providing controls for higher-fidelity haptic designs which utilize multiple actuators. The TouchSense 4000 family offers a higher level of control, creating the opportunity for an increased number of haptic effects with finer resolution.

TouchSense 5000: Targeted to the mobile communications and consumer electronics market, the TouchSense 5000 family offers haptic controls for high-fidelity piezo and/or smart actuators, creating crisp, realistic and nuanced haptic effects.

TouchSense 6000: Targeted to the gaming and automotive market, the TouchSense 6000 family provides force feedback control for wheels, joysticks and rotary switches.

IP Licensing: While our primary approach is to sell solutions, we also offer Intellectual Property (IP) and technology licenses to those customers who wish to develop their own proprietary haptic implementations. Immersion licenses its IP across all of its target markets.

For both our IP and TouchSense licensees, we offer our expertise to help them design and integrate touch effects into their products. This expertise includes turn-key engineering and integration services, design kits for prototyping, authoring tools, application programming interfaces, and the development of hardware and software technologies that are compatible with industry standards. Also, as of February 2011, our TouchSense customers can license our MOTIV Development Platform, a software development program designed to improve the mobile user experience through haptics.

Turn-key Engineering and Integration Services We offer engineering assistance, including technical and design assistance and integration services that allow our licensees to incorporate our touch-enabling products and

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technologies into their products at a reasonable cost and in a shortened time frame. This allows them to get to market quickly by using our years of haptic development and solution deployment expertise. We offer product development solutions including product software libraries, design, prototype creation, technology transfer, actuator selection, component sourcing, development/integration kits, sample source code, comprehensive documentation, and other engineering services. In addition, we help ensure a quality end-user experience by offering testing and certification services to a number of licensees.

Design Kits for Prototyping We offer several design kits for customers to use for technology evaluation, internal evaluation, usability testing, and focus group testing. The kits include components and documentation that designers, engineers, and system integrators need for prototyping TouchSense touch feedback into an existing or sample product.

Authoring Tools We license authoring tools that enable haptic designers and software developers to quickly design and incorporate custom touch feedback into their own applications. Authoring tools allow designers to create, modify, experience, and save or restore haptic effects for a haptic device. The tools are the equivalent of a computer-aided design application for haptics. Our authoring tools support vibro-tactile haptic devices (such as mobile phones, touchscreens, and vibro-tactile gaming peripherals), as well as kinesthetic haptic devices (such as rotary devices, 2D devices, and joysticks). Various haptic effect parameters can be defined and modified, and the result immediately experienced. Our authoring tools run on mainstream operating systems such as Microsoft Windows.

Application Programming Interfaces or (APIs) Our APIs provide haptic-effect generation capability. This allows designers and software programmers to focus on adding haptic effects to their applications instead of struggling with the mechanics of programming real-time algorithms and handling communications between computers and devices. Some of our haptic APIs are device independent (for example, they work with scroll wheels, rotary knobs, 2D joysticks, and other devices) to allow flexibility and reusability. Others are crafted to meet the needs of a particular customer or industry.

Platform Independent Solutions Our software driver and API technology have been designed to be easily ported to a variety of operating systems including Windows, Windows CE, REX (from QUALCOMM), and various Linux platforms including Android, Maemo and VxWorks.

Products and Markets

Mobile Communications and Consumer Electronics We developed TouchSense solutions for the mobile phone market and a variety of consumer electronics.

The TouchSense Solution for mobile phones for handset OEMs, operators, and application developers includes a TouchSense Player, a vibration playback system that is embedded in the phone, and a TouchSense software toolkit, including a PC-based composition tool for creating haptic effects for inclusion in content and applications. Haptic effects can be used in alerts, e-mail, games, messages, ringtones, touchscreen interactions, and other user interface features to add information or identification, signal status or message arrival, and heighten interest or fun. With a TouchSense-enabled phone, users can send and receive a wide range of vibro-tactile haptic effects independently from or in synchronicity with audio, video, and application program content.

Our licensees currently include the top three of ten makers of mobile phones by volume in the world: Nokia, Samsung, and LG Electronics plus others such as Pantech Co., Ltd., Toshiba, and KTF Technologies Inc. Since its launch in the first handset in 2005, our TouchSense technology has shipped in nearly 400 million handsets. Notable product announcements during 2011 from our licensees include the N9 mobile phone from Nokia, as well as the Galaxy S II and Note smartphones from Samsung, and the LG Optimus Black mobile phone. Additionally in September 2011, Fujitsu became the first OEM to come to market with the MOTIV Integrator product, in the F-12C smartphone, which also incorporated Immersion's TouchSense 3000 software. We continue to evolve our technology to improve the haptic experience and add value to our licensees, and intend to

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work with emerging haptic enablement technologies to develop superior haptic effects for the mobile environment. Examples of this initiative include the announcement of the MOTIV Integrator product for OEMs in February 2011, which provides an improved user experience through the automated integration of haptic effects into the Android OS, and the March 2011 announcement of the MOTIV SDK which enables 3rd party Android application developers to natively design haptic effects into their applications. We intend to expand the capabilities of the MOTIV Integrator and MOTIV SDK to offer new features that create compelling haptic experiences to our OEMs and the application development community.

For the years ended December 31, 2011, 2010, and 2009, respectively, 44%, 36%, and 29% of our total revenues were generated from mobile communications.

At Mobile World Congress in February 2011, Samsung announced the expansion of its Android-based tablet product line with the Samsung 10.1 Tab, which incorporates Immersion's haptic feedback technology. In 2011, Toshiba introduced the Thrive tablet product line, which consists of the 7" and 10" tablet devices which incorporate Immersion's TouchSense 3000 technology. In October, 2011, Fujitsu became the first tablet manufacturer to incorporate Immersion's MOTIV platform along with its TouchSense 3000 software, in their ARROWS Tab. Finally, in January 2012, Pantech became the first device manufacturer to ship Immersion's High Definition TouchSense 5000 product, in their Element Tab, which also shipped with Immersion's MOTIV Integrator.

Gaming Devices We have licensed our TouchSense intellectual property to Microsoft Corporation for use in its gaming products and to Sony Computer Entertainment Inc. for use in its legacy and current PlayStation console gaming products. We have also licensed our TouchSense intellectual property to over a dozen gaming peripheral manufacturers and distributors, including Logitech and Mad Catz, Inc., to bring haptic technology to PC platforms including Microsoft Windows operating systems, as well as to video game consoles.

In the video game console peripheral market, we have licensed our intellectual property for use in hundreds of spinning mass tactile feedback devices and force feedback devices such as steering wheels and joysticks to various manufacturers including Alliance Sales and Distribution Inc., Bensussen Deutsch & Associates Inc. (BDA), Datel Design & Inc., dreamGear LLC, Gemini Industries, Inc., Griffin Marketing and Promotions, Inc., Guillemot Corporation, Hori (U.S.A.), Inc., Intec, Inc., Katana Game Accessories PTE Ltd., Logitech Inc., Mad Catz, Inc., Microsoft Corporation, NYKO Technologies, Inc., Performance Designed Products (PDP) (formerly Electro Source LLC), Razer PTE Ltd, Sony, Sunflex USA Inc., and Uniq Limited. These products are designed to work with one or more video game consoles including the Xbox and Xbox 360 from Microsoft; the PlayStation, PlayStation 2, and PlayStation 3 from Sony; and the N64, GameCube, and Wii from Nintendo. Currently, products sold to consumers using TouchSense technology include PC joysticks, steering wheels, and gamepads from various licensees.

For the years ended December 31, 2011, 2010, and 2009, respectively, 31%, 24%, and 19% of our total revenues were generated from PC and console gaming revenues.

In the arcade entertainment market, our products include steering wheel and joystick control electronics that provide industrial strength and quality force feedback that enable very realistic simulations.

In the casino and bar-top amusement market, we signed an agreement with 3M Touch Systems Inc. in 2005 that allows it to manufacture and distribute its 3M MicroTouch® touch screens with our TouchSense technology.

Automotive We have developed TouchSense technology for rotary controls, touchscreens, and touch surfaces appropriate for use in automobiles. TouchSense rotary technology can consolidate the control of multiple systems into a single module that provides the appropriate feel for each function. This allows the driver convenient access to many systems and supplies context-sensitive cues for operation. TouchSense touchscreen and touch surface technology provides tactile feedback for an otherwise unresponsive surface such as an all digital switch or touchscreen. Programmable haptic touchscreen, touch surface, and rotary controls of many types can be used to provide a space-saving, aesthetic look and a confirming response for the driver that can help reduce glance time.

We have licensed our TouchSense rotary technology for use in vehicle controls since 2002. Siemens VDO Automotive (now Continental AG) has licensed our technology for use in the high-end Volkswagen Phaeton

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sedan and Bentley cars. ALPS Electric Co., Ltd. (ALPS), which in February 2011 broadened and extended their licensing agreement to 2016, has produced a haptic rotary control that has been included in the Mercedes-Benz S-Class sedan. ALPS also produced a two-dimensional haptic control module called the Remote Touch controller in the Lexus RX 350 and 450h. These 2010 Lexus models were announced in November 2008 and launched in the U.S. in February 2009. Other licensees of TouchSense technology in the automotive industry include: Methode Electronics, Inc., a global designer and manufacturer of electronic component and subsystem devices; Visteon a leading global automotive supplier that designs, engineers, and manufactures innovative climate, interior, electronic, and lighting products for vehicle manufacturers; Volkswagen AG, Europe's largest automaker; SMK Corporation of Tokyo, a global manufacturer of electromechanical components; Daesung Electric Co. Ltd., a leading Korean automotive original design manufacturer (ODM) and major supplier to Hyundai and Kia.; and Panasonic Corp. (formerly Sanyo Automedia), a leading supplier of factory installed automotive systems, such as integrated center stacks, for the Cadillac brand of General Motors cars.

For the years ended December 31, 2011, 2010, and 2009, respectively, 6%, 6%, and 6% of our total revenues were from automotive customers.

Medical In March 2010, we sold certain assets of the endoscopy, endovascular, and laparoscopy medical simulation product lines. See Note 11 of the consolidated financial statements for a further discussion.

As a result of this sale of the majority of the medical products business to CAE in March 2010, we currently have a single remaining medical simulation product line, the Virtual IV system, which simulates needle-based procedures such as intravenous catheterization and phlebotomy, and is a jointly developed product with our partner Laerdal Medical A/S, who distributes this product on a world-wide basis.

We have developed and licensed numerous simulation technologies that can be used for medical training and testing. By enabling a medical simulator to more fully engage users' sense of touch, our technologies can support realistic simulations that are effective in teaching medical students, doctors, and other health professionals what it feels like to perform a given procedure. The use of these simulators allows these professionals to perfect their practice in an environment that poses no risks to patients, where mistakes have no dire consequences, and where animal or cadaver use is unnecessary.

We have developed TouchSense technology for virtual simulators, touchscreens, and touch surfaces appropriate for use in medical simulation and surgical robotics. TouchSense simulation technology enhances motor skills training on medical tasks or techniques, such as suturing and knot tying, and restores the sense of feel to interaction such as navigating an airway or maneuvering through the colon, providing users with intuitive and unmistakable confirmation as they complete tasks or techniques. TouchSense touchscreen and touch surface technology provides tactile feedback for otherwise unresponsive surfaces such as an all digital switch or touchscreen. Programmable haptic touchscreen and touch surface controls of many types can be used to provide healthcare professionals with intuitive touch confirmation to deliver critical information in medical devices such as ultrasound machines and vital sign monitoring systems.

In 2009, we entered the robotic surgical market by licensing our TouchSense technology to MAKO Surgical Corp. In March 2010 we expanded our participation in the robotic surgical market by entering into a licensing agreement with SOFAR S.P.A. to incorporate our simulation technology in its ALF-X Laparoscopy telesurgical robot system. We intend to pursue additional licensees to further expand our licensing business into this market.

For the years ended December 31, 2011, 2010, and 2009, respectively 15%, 23%, and 41% of our total revenues were from the medical line of business. The decline in 2010 primarily reflects the decision to divest most of our medical product lines to CAE in March 2010.

Commercial and Industrial We extended our reach into the commercial and industrial markets through licensing agreements with Densitron Inc. in 2009 and Tastitalia S.r.l. in 2010. While this market does not currently represent a material part of our business, it represents an opportunity for us to leverage our licensing business model to accelerate the adoption of haptics into new markets.

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Manufactured Products

Prior to the divesting of our medical products line of business in March 2010, we produced our products using both contracted and in-house manufacturing. Today, our product solutions are limited to components used for design kits and a single line of business that is manufactured on a private label basis for a customer, the Virtual IV system (see Products and Markets – Medical). These manufactured products no longer represent a material part of our business.

As previously announced in March of 2010, we divested most of our line of medical simulation products to CAE Healthcare USA Inc. (CAE). These products included our:

Endoscopy AccuTouch® System;
The CathLab VR System; and
LapVR System.

Additionally, as previously announced in late 2008, we divested our line of 3D products in 2009. These products included our:

MicroScribe® digitizers;
a 3D interaction product line; and
SoftMouse® 3D positioning device.

Sales and Distribution

Our sales have been seasonal with typically an increase in the first quarter reflecting holiday shipments of our customers with integrated Immersion technology. Both mobile phones and gaming products are subject to shipment increases in the fourth quarter which is reflected in our first quarter revenue. Seasonal fluctuations have not been extremely significant to our overall revenue trends in the past. With mobile phone sales potentially increasing, our business may become more seasonal as we leverage new products and have our technology in additional mobile phone designs.

In the PC and video console gaming, consumer electronics, mobility, and automotive markets, we establish licensing relationships through our business development efforts.

We have signed license agreements with mobile handset manufacturers for the incorporation of TouchSense technology into certain mobile phone handsets.

We employ a consolidated direct sales force in the United States, Europe, and Asia to license our TouchSense software products across our target markets and augment that sales force via partnerships and licensing agreements with component suppliers and system integrators.

In gaming, as part of our strategy to increase our visibility and promote our touch-enabling technology, our consumer-products licensees may also require our licensees to display the TouchSense technology logo on their end products.

In gaming, automotive, commercial and industrial, our touch screen and touch surface products are licensed to large system integrators and OEMs.

In the automotive market, we have licensed our technology to leading automotive component suppliers including Panasonic, Methode Electronics, Inc., ALPS, SMK Corporation, and Visteon as part of our strategy to speed adoption of our TouchSense technologies across the automotive industry. In the commercial and industrial market, we entered into licensing agreements with Densitron Inc. in 2009 and Tastitalia S.r.l. in 2010 as part of our strategy to leverage our licensing business model to broaden the reach of haptics into new markets.

In 2009, we began implementing a strategy to broaden and expand market penetration by licensing our TouchSense technology into several chip manufacturers with the goal that these licensees will broaden their

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product offerings with the addition of haptics. In 2011, we entered into licensing agreements with Microchip and Texas Instruments. Other chip manufacturer licensees include Atmel Corporation, Cypress Semiconductor Corporation, Renesas Technology America, Inc., and Imagis.

Competition

With respect to touch-enabled consumer products, we are aware of several companies that claim to possess touch feedback technology applicable to the consumer market. In addition, we are aware of several companies that currently market unlicensed touch feedback products in consumer markets.

The principal competitive factors are the strength of the intellectual property underlying the technology, the technological expertise and design innovation and the use, reliability and cost-effectiveness of the products. We believe we compete favorably in all these areas.

Several companies also currently market touch feedback products that are competitive to ours in non-consumer markets. These companies could also shift their focus to the consumer market. In addition, our licensees or other companies may develop products that compete with products employing our touch-enabling technologies, but are based on alternative technologies, or develop technologies that are similar or superior to our technologies, duplicate our technologies, or design around our patents. Many of our licensees, including Microsoft, LG Electronics, Logitech, Nokia, Samsung, and others have greater financial and technical resources upon which to draw in attempting to develop computer peripheral or mobile phone technologies that do not make use of our touch-enabling technologies.

For licensed applications, our competitive position is partially dependent on the competitive positions of our licensees that pay a license fee and/or royalty. Our licensees' markets are highly competitive. We believe that the principal competitive factors in our licensees' markets include price, performance, user-centric design, ease-of-use, quality, and timeliness of products, as well as the manufacturer's responsiveness, capacity, technical abilities, established customer relationships, retail shelf space, advertising, promotional programs, and brand recognition. Touch-related benefits in some of these markets may be viewed simply as enhancements and compete with nontouch-enabled technologies.

Research and Development

Our success depends on our ability to invent, improve, and reduce the cost of our technologies in a timely manner; to design and develop products to meet specifications based on research and our understanding of customer needs and expectations; and to collaborate with our licensees who are integrating our technologies into theirs.

Immersion Engineering We have assembled a multi-disciplinary team of highly skilled engineers and scientists with the experience required for development of touch-enabling technology. The team's experience includes skills related to mechanical engineering, electrical engineering, embedded systems and firmware, control techniques, software, quality control, haptic content design, and project and process management.

Application Engineering and Technical Support We may provide application engineering and technical support during integration of our touch-enabling technology into customer products. To facilitate the validation and adoption of touch-enabling technology, we have developed various design kits. These kits may include actuators, mounting suggestions, controller boards, software libraries, programming examples, and documentation. Our application engineers support customer use of these design kits, including through phone and e-mail technical support and onsite training.

Licensee Interaction Typically, our development efforts in designing new systems, when the solution is not known beforehand, is structured using a multi-phase approach. Those phases are product definition, concept development, and detail design. In the process of the detail design phase, we work closely with technology partners and may transition the completion of the detail design phase to those partners to carry into the

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production design phases. Each phase includes formal design reviews and documentation. The development effort is contingent upon successful completion and acceptance of prior phases. This method helps ensure that the customer's financial risk is minimized and that project deliverables remain consistent with the goals established in the product definition phase.

Product Development Process In mid-2009, we transitioned from a product design process based on ISO 9001 guidance to the customer-focused Agile Scrum project management process. This process starts with the typical marketing and product requirement stages, with customer and project stakeholder feedback and review at frequent intervals during the development phase, ensuring that the product development team remains nimble and can react quickly to changes in market needs. The process is supported by documentation procedures and tools, design reviews, revision control, quality assurance testing, and formal product release procedures.

Research We have a dedicated team of researchers and scientists, experts in haptics and multimodal systems, focusing on creating solutions to enable new markets and applications. We have multidisciplinary expertise in usability and multimodal user interface design, actuator design, sensors, integration, material science, real-time simulation algorithms, control, and software development. Our team is involved with existing and potential partners to help them assess and prove the value of haptics in their field of interest, creating main competitive differentiator and value added solutions. Our team continues to generate patent applications, actively contributing to the reinforcement of Immersion's intellectual property (IP) position.

User Experience We have a dedicated team of user interaction specialists, focusing on user research and design to enable new and improved applications of haptics. We have unique expertise in haptics, usability and interface design. Our team is involved with existing and potential partners to help them determine the best implementation of haptics in their specific application. This team works on the cutting edge of new user interface paradigms using haptics, resulting in an ongoing generation of patent applications, actively contributing to the development of new IP for us.

For the years ended December 31, 2011, 2010, and 2009, research and development expenses were \$8.4 million, \$8.7 million, and \$12.5 million respectively. The decrease in research and development expense for the year ended December 31, 2010 as compared to the year ended December 31, 2009 was primarily due to the divestiture of the medical simulation product lines.

Intellectual Property

We believe that intellectual property protection is crucial to our business. We rely on a combination of patents, copyrights, trade secrets, trademarks, nondisclosure agreements with employees and third parties, licensing arrangements, and other contractual agreements with third parties to protect our intellectual property.

Our failure to obtain or maintain adequate protection for our intellectual property rights for any reason could hurt our competitive position. There is no guarantee that patents will be issued from the patent applications that we have filed or may file. Our issued patents may be challenged, invalidated, or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage.

In August of 2011, we announced that we and our wholly owned subsidiaries reached a milestone of over 1,200 currently issued or pending patents in the U.S. and other countries that cover various aspects of our hardware and software technologies. Some of our U.S. patents have begun to expire starting in 2007. We amortize our patents over their estimated useful lives, generally 10 years. Where we believe it is appropriate, we will protect our intellectual property rights through the legal system.

Investor Information

You can access financial and other information in the Investor Relations section of our Web site at www.immersion.com. We make available, on our Web site, free of charge, copies of our annual report on

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Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

The charters of our audit committee, our compensation committee, and our nominating/corporate governance committee, and our Code of Business Conduct and Ethics (including code of ethics provisions that apply to our principal executive officer, principal financial officer, controller, and senior financial officers) are also available at our Web site under Corporate Governance. These items are also available to any stockholder who requests them by calling +1 408.467.1900.

The SEC maintains an Internet site that contains reports, proxy, and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Employees

As of December 31, 2011, we had 85 full-time and part-time employees, including 44 in research and development, 19 in sales and marketing, and 22 in legal, finance, and administration. We also use independent contractors. None of our employees are represented by a labor union, and we consider our employee relations to be positive.

Executive Officers

The following table sets forth information regarding our executive officers as of March 2, 2012.

<u>Name</u>	<u>Position with the Company</u>	<u>Age</u>
Victor Viegas	Chief Executive Officer, Interim Chief Financial Officer, and member of the Board of Directors	54
Joseph LaValle	Vice President, Sales	62

Mr. Viegas has served as Chief Executive Officer since October 2009 and as a member of the Board of Directors since October 2002 and as Interim Chief Financial Officer since December 2011. Mr. Viegas was our Chief Executive Officer from October 2002 through April 2008, and President from February 2002 through April 2008. Mr. Viegas was also Chairman of the Board of Directors from October 2007 to February 2009, and assumed the role of interim Chief Financial Officer as of December 2011. Mr. Viegas also served as Chief Financial Officer until February 2005, having joined us in August 1999 as Chief Financial Officer, Vice President, Finance. From June 1996 to August 1999, he served as Vice President, Finance and Administration and Chief Financial Officer of Macrovision Corporation, a developer and licensor of video and software copy protection technologies. From October 1986 to June 1996, he served as Vice President of Finance and Chief Financial Officer of Balco Incorporated, a manufacturer of advanced automotive service equipment. He holds a B.S. in Accounting and an M.B.A. from Santa Clara University. Mr. Viegas is also a Certified Public Accountant (inactive) in the State of California.

Joseph LaValle joined Immersion in August, 2009 as Vice President, Sales of the Touch Line of Business. Mr. LaValle was promoted to Vice President, Sales in August, 2010. From September 2008 through June, 2009, he served as Vice President of Sales at Telegent Systems. He served as Vice President of Sales at SiRF Technology Holdings, Inc. from September 2003 through September 2008. Mr. LaValle spent eight years on assignment in Hong Kong and Tokyo for Intel from May 1998 through August 2003 and Digital Equipment's semiconductor division from October 1994 through May, 1998. Positions included Director of Asia Pacific Sales for Intel's Communications Sales Organization, General Manager of the Communications and Embedded Sales Group at Intel Japan, and Director of Asia Pacific Sales for Digital Equipment. Mr. LaValle also held various sales and marketing management positions at 3M. He holds a Bachelor of Arts degree from Wabash College.

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Item 1A. Risk Factors

You should carefully consider the following risks and uncertainties, as well as other information in this report and our other SEC filings, in considering our business and prospects. If any of the following risks or uncertainties actually occurs, our business, financial condition, or results of operations could be materially adversely affected. The following risks and uncertainties are not the only ones facing us. Additional risks and uncertainties of which we are unaware or that we currently believe are immaterial could also materially adversely affect our business, financial condition, or results of operations. In any case, the trading price of our common stock could decline, and you could lose all or part of your investment. See also the Forward-looking Statements discussion in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Company Risks

If we are unable to enter into new licensing arrangements with our existing licensees and with additional third-party manufacturers for our touch-enabling technologies, our royalty revenue may not grow.

Our revenue growth is largely dependent on our ability to enter into new licensing arrangements. Our failure to enter into new or renewal of licensing arrangements will cause our operating results to suffer. We face numerous risks in obtaining new licenses on terms consistent with our business objectives and in maintaining, expanding, and supporting our relationships with our current licensees. These risks include:

the lengthy and expensive process of building a relationship with potential licensees;

the competition we may face with the internal design teams of existing and potential licensees;

difficulties in persuading product manufacturers to work with us, to rely on us for critical technology, and to disclose to us proprietary product development and other strategies;

difficulties with persuading potential licensees who may have developed their own intellectual property or licensed intellectual property from other parties in areas related to ours to license our technology as we obtain new patents and develop new business revenue models versus continuing to develop their own intellectual property or license intellectual property from other parties;

challenges in demonstrating the compelling value of our technologies and challenges associated with customers' ability to easily implement our technologies;

difficulties in persuading existing and potential licensees to bear the development costs and risks necessary to incorporate our technologies into their products;

difficulties in obtaining new licensees for yet-to-be commercialized technology because their suppliers may not be ready to meet stringent quality and parts availability requirements;

inability to sign new gaming licenses if the video console makers choose not to license third parties to make peripherals for their new consoles or if video console makers no longer require peripherals to play video games; and

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reluctance of content developers, mobile phone manufacturers, and service providers to sign license agreements without a critical mass of other such inter-dependent supporters of the mobile phone industry also having a license, or without enough phones in the market that incorporate our technologies.

Our licensing cycle can be lengthy and costly and our marketing and licensing efforts may be unsuccessful.

The process of persuading customers to adopt and license our technologies can be lengthy and, even if successful, there can be no assurance that our technologies will be used in a product that is ultimately brought to

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market, achieve commercial acceptance, or result in significant royalties to us. We generally incur significant marketing and sales expenses prior to entering into our license agreements. The length of time it takes to establish a new licensing relationship can take many months or even years. In addition, any intellectual property litigation that we engage in will likely have an impact on our ability to enter into new licenses and renewals of licenses. As such, we may incur costs in any particular period before any associated revenue stream begins, if at all. If our marketing and sales efforts are very lengthy or unsuccessful, then we may face a material adverse effect on our business and results of operations as a result of delay or failure to obtain royalties.

Future revenue is difficult to predict for several reasons, and our failure to predict revenue accurately may cause our results to be below our expectations or those of analysts and result in our stock price declining.

Our lengthy and costly license negotiation cycle and any intellectual property litigation that we may engage in make our future revenue difficult to predict because we may not be successful in entering into licenses with our customers on our estimated timelines and we may be reliant on litigation timelines which are difficult to control for any results or settlements.

While some of our license agreements provide for fixed royalty payments, many of our license agreements provide for volume-based royalties, and may also be subject to adjustments based on volume. The sales volume and prices of our licensees' products in any given period can be difficult to predict. As a result, our actual results may differ substantially from analyst estimates or our forecasts in any given quarter.

In addition, a portion of our revenue comes from development and support services provided to our licensees, or may be part of a multiple element arrangement contract. Depending upon the nature of the services or elements, all or a portion of the revenue may be recognized ratably over the support period or length of the contract, or may be recognized according to the proportional performance accounting method under GAAP. Contract revenue accounting may result in deferral of the service fees to the completion of the contract, or may be recognized over the period in which services are performed on a proportional performance basis and product development schedules for these projects may be changed or delayed. All of these factors make it difficult to predict future licensing revenue and may result in our results being below our previously announced guidance or analysts' estimates which would likely cause our stock price to decline.

A limited number of customers account for a significant portion of our revenue, and the loss of major customers could harm our operating results.

Two customers accounted for approximately 33% and 24% of our total revenues for the year ended December 31, 2011 and 2010, respectively. Three customers accounted for approximately 34% of our total revenues for the year ended December 31, 2009. We cannot be certain that customers that have accounted for significant revenue in past periods, individually or as a group, will continue to generate revenue in any future period. If we fail to renew or lose a major customer or group of customers, our revenue could decline if we are unable to replace revenue from other sources.

Litigation regarding intellectual property rights could be expensive, disruptive, and time consuming; could result in the impairment or loss of portions of our intellectual property; and could adversely affect our business.

Intellectual property litigation, whether brought by us or by others against us, has caused us to expend, and may cause us to expend in future periods, significant financial resources as well as divert management's time and efforts. From time to time, we initiate claims against third parties that we believe infringe our intellectual property rights. On February 7, 2012, we filed a complaint against Motorola Mobility, Inc. and Motorola Mobility Holdings, Inc. (together, "Motorola") with the U.S. International Trade Commission and in a patent infringement complaint in the U.S. District Court for the District of Delaware which alleges that certain Motorola Android-based smartphones infringe six Immersion patents. On March 2, 2012, we added HTC Corporation, HTC America Holding, Inc., HTC America, Inc., HTC (B.V.I.) Corporation, and Exedeia, Inc. (collectively, "HTC") to the complaint in the U.S. International Trade Commission and filed a separate patent infringement

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complaint against HTC in the U.S. District Court for the District of Delaware. We intend to enforce our intellectual property rights vigorously and may initiate further litigation against parties that we believe are infringing our intellectual property rights if we are unable to resolve matters satisfactorily through negotiation. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and difficult to pursue in certain venues, and distracting to management and potential customers and could result in the impairment or loss of portions of our intellectual property. In addition, any litigation in which we are accused of infringement may cause product shipment delays, require us to develop non-infringing technologies, or require us to enter into royalty or license agreements even before the issue of infringement has been decided on the merits. If any litigation were not resolved in our favor, we could become subject to substantial damage claims from third parties and indemnification claims from our licensees. We could be enjoined from the continued use of the technologies at issue without a royalty or license agreement. Royalty or license agreements, if required, might not be available on acceptable terms, or at all. If a third party claiming infringement against us prevailed, and we were not able to develop non-infringing technologies or license the infringed or similar technologies on a timely and cost-effective basis, our expenses could increase and our revenues could decrease.

While we attempt to avoid infringing known proprietary rights of third parties, third parties may hold, or may in the future be issued, patents that could be infringed by our products or technologies. Any of these third parties might make a claim of infringement against us with respect to the products that we manufacture and the technologies that we license. From time to time, we have received letters from companies, several of which have significantly greater financial resources than we do, asserting that some of our technologies, or those of our licensees, infringe their intellectual property rights. Certain of our licensees may receive similar letters from these or other companies from time to time. Such letters or subsequent litigation may influence our licensees' decisions whether to ship products incorporating our technologies. In addition, such letters may cause a dispute between our licensees and us over indemnification for the infringement claim. Any of these notices, or additional notices that we or our licensees could receive in the future from these or other companies, could lead to litigation against us, either regarding the infringement claim or the indemnification claim.

We have acquired patents from third parties and also license some technologies from third parties. We must rely upon the owners of the patents or the technologies for information on the origin and ownership of the acquired or licensed technologies. As a result, our exposure to infringement claims may increase. We generally obtain representations as to the origin and ownership of acquired or licensed technologies and indemnification to cover any breach of these representations. However, representations may not be accurate and indemnification may not provide adequate compensation for breach of the representations. Intellectual property claims against our licensees, or us, whether or not they have merit, could be time-consuming to defend, cause product shipment delays, require us to pay damages, harm existing license arrangements, or require us or our licensees to cease utilizing the technologies unless we can enter into licensing agreements. Licensing agreements might not be available on terms acceptable to us or at all. Furthermore, claims by third parties against our licensees could also result in claims by our licensees against us for indemnification.

The legal principles applicable to patents and patent licenses continue to change and evolve. Legislation and judicial decisions that make it easier for patent licensees to challenge the validity, enforceability, or infringement of patents, or make it more difficult for patent licensors to obtain a permanent injunction, obtain enhanced damages for willful infringement, or to obtain or enforce patents, may adversely affect our business and the value of our patent portfolio. Furthermore, our prospects for future revenue growth through our royalty and licensing based businesses could be diminished.

We had an accumulated deficit of \$106 million as of December 31, 2011, have a history of losses, and may not achieve or maintain profitability in the future.

Since 1997, we have incurred losses in all but six quarters. As of December 31, 2011, we had an accumulated deficit of \$106 million. We need to generate significant ongoing revenue to achieve and maintain consistent profitability. We anticipate that we will continue to incur expenses as we:

continue to develop our technologies;

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increase our sales and marketing efforts;

attempt to expand the market for touch-enabled technologies and products and change our business;

protect and enforce our intellectual property;